



# Income Taxes - Future Income Taxes Method<sup>1</sup>

Effective Date

 Fiscal years beginning on or after January 1, 2011<sup>2</sup>

SCOPE	INCOME TAXES	ACCOUNTING POLICY
<p><b>Does not apply to:</b></p> <ul style="list-style-type: none"> <li>Accounting for investment tax credits (see Section 3805).</li> </ul>	<p><b>Include:</b></p> <ul style="list-style-type: none"> <li>All domestic and foreign taxes that are based on taxable income;</li> <li>Taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses;</li> <li>Alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period; and</li> <li>Taxes, such as withholding taxes, that are based on amounts paid to the enterprise.</li> </ul>	<ul style="list-style-type: none"> <li>An enterprise must make an <u>accounting policy choice</u> to either account for income taxes using:                             <ul style="list-style-type: none"> <li>The taxes payable method; or</li> <li>The future income taxes method.</li> </ul> </li> <li>In making this choice, the entity does not need to meet the criteria in paragraph .06(b) of Section 1506, <i>Accounting Changes</i>.</li> </ul>

## FUTURE INCOME TAXES METHOD

- A method of accounting under which an enterprise reports as an expense (income) of the period the cost (benefit) of current income taxes and the cost (benefit) of future income taxes, determined in accordance with the rules established by taxation authorities.

## RECOGNITION

### CURRENT INCOME TAX LIABILITIES AND CURRENT INCOME TAX ASSETS

- Are recognized, to the extent unpaid or recoverable, as a liability or an asset.
- Must not be included in future income tax liabilities and future income tax assets.
- The benefit relating to a tax loss arising in the current period that will be carried back to recover income taxes of a previous period must be recognized as a current asset.

### FUTURE INCOME TAX LIABILITIES AND FUTURE INCOME TAX ASSETS

#### Temporary differences

- Differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. May be either taxable temporary differences or deductible temporary differences.

#### Future income tax liabilities

- The amounts of income taxes arising from taxable temporary differences.

#### Taxable temporary differences

- Temporary differences that will result in taxable amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled.
- At each balance sheet date, except as set out in paragraphs 3465.31, .33 and .35, a future income tax liability must be recognized for all taxable temporary differences, except those arising from any portion of goodwill not deductible for tax purposes.

#### Future income tax assets

- The amounts of income tax benefits arising in respect of:
  - Deductible temporary differences;
  - The carryforward of unused tax losses; and
  - The carryforward of unused income tax reductions, except for investment tax credits.
- Deductible temporary differences, unused tax losses and income tax reductions
  - Deductible temporary differences are differences that will result in deductible amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled.
  - At each balance sheet date, except as set out in paragraphs 3465.31, .33 and .35, a future income tax asset must be recognized for all deductible temporary differences, unused tax losses and income tax reductions.
  - The amount recognized must be limited to the amount that is more likely than not to be realized.

<sup>1</sup> Includes portions of Section 3465 - *Income Taxes*, that relate to the future income taxes method. For the remainder of the guidance provided in Section 3465 related to the taxes payable method, please refer to our publication "ASPE AT A GLANCE - *Income Taxes - Future Income Taxes Method*".

<sup>2</sup> Except as specified in paragraph 3465.92



## FUTURE INCOME TAX LIABILITIES AND FUTURE INCOME TAX ASSETS (CONTINUED)

- **Reassessment of future income tax assets**
  - At each balance sheet date:
    - To the extent it is no longer more likely than not a recognized future income tax asset will be realized, the carrying amount of the asset must be reduced; or
    - To the extent it is no longer more likely than not an unrecognized future income tax asset will be realized, a future income tax asset must be recognized.
- **Integrated foreign operations**
  - When a temporary difference arises from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets or liabilities of integrated foreign operations, a future income tax asset or liability cannot be recognized.
- **Intra-group transfers**
  - When an asset is transferred between enterprises within a consolidated group and a temporary difference arises between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements, a future income tax liability or asset must not be recognized in the consolidated financial statements.
  - Any taxes paid or recovered by the transferor resulting from the transfer must be recorded in the consolidated financial statements as an asset or liability until the gain or loss is recognized by the consolidated entity.
- **Investments in subsidiaries and interests in joint arrangements**
  - At each balance sheet date, a future income tax liability or a future income tax asset must be recognized for all temporary differences resulting from investments in subsidiaries and interests in joint arrangements, except those related to the difference between the carrying amount and the tax basis of the investment when it is evident this difference will not reverse in the foreseeable future.
  - A future income tax asset can only be recognized to the extent it is more likely than not the benefit will be realized.

## ASSETS ACQUIRED OTHER THAN IN A BUSINESS COMBINATION

- When the tax basis of an asset acquired other than in a business combination is less than its cost, the cost of the future income taxes recognized at the time of acquisition must be added to the cost of the asset.
- When the tax basis of an asset acquired other than in a business combination is greater than its cost, the benefit related to the future income taxes recognized at the time of the acquisition must be deducted from the cost of the asset.

## BUSINESS COMBINATION

- When, at the time of a business combination, the acquirer considers it more likely than not that it will realize a future income tax asset of its own that was previously unrecognized, it must recognize a change in the future income tax asset in the period of the business combination, but must not include it as part of the accounting for the business combination.
- When a future income tax asset acquired in a business combination was not recognized as an identifiable asset by the acquirer at the date of the acquisition, but is subsequently recognized by the acquirer within the measurement period, the benefit must be applied as follows:
  - First, to reduce any unamortized goodwill related to the acquisition to zero; and
  - Next, to reduce income tax expense.
- When a future income tax asset acquired in a business combination was not recognized as an identifiable asset by the acquirer at the date of the acquisition, but is recognized by the acquirer after the measurement period, the benefit must be recognized as income tax expense.
- The same principles outlined above must also be applied:
  - When accounting for an investment subject to significant influence or an interest in a joint arrangement; and
  - When recognizing future income tax assets in periods subsequent to the application of push-down accounting (see Section 1625, *Comprehensive Revaluation of Assets and Liabilities*).
- When a future income tax asset was not recognized at the date of a comprehensive revaluation resulting from a financial reorganization (see Section 1625, *Comprehensive Revaluation of Assets and Liabilities*), but is subsequently recognized, the benefit must be applied as follows:
  - First, to reduce any unamortized intangible assets (see Section 3064, *Goodwill and Intangible Assets*) that were recorded at the date of the comprehensive revaluation to zero; and
  - Next, in a manner consistent with the revaluation adjustment recorded at the date of the comprehensive revaluation.



## MEASUREMENT

- At the balance sheet date, income tax liabilities and assets must be measured using the income tax rates and laws that are expected to apply when the liability is settled or the asset is realized, which are normally those enacted at the balance sheet date.
- Future income tax liabilities and assets must not be discounted.

## INTRAPERIOD ALLOCATION

- **Income tax expense**
  - The cost (benefit) of current and future income taxes must be recognized as income tax expense included in determining net income / loss for the period before discontinued operations, except for:
    - Any portion of the cost (benefit) of current and future income taxes that relates to capital transactions, or items that are credited / charged directly to equity in the current period. This amount is credited / charged directly to equity. For more details on how to account for such items refer to the guidance provided in paragraphs 3465.59 (c)-(i).
  - Changes in future income tax balances recognized in accordance with paragraph 3465.51 as a result of changes in tax laws or rates must be included in future income tax expense reported in income before discontinued operations.
- **Refundable taxes**
  - Taxes based on certain types of income that are refundable when certain amounts are paid to shareholders.
  - A future income tax asset is recognized when the amount of a payment related to a component of an instrument classified as a liability in accordance with Section 3856, *Financial Instruments*, results in a refund of income taxes previously paid.
  - Refundable taxes in the nature of advance distributions related to a component of an instrument classified as equity in accordance with Section 3856, *Financial Instruments*, are charged to retained earnings when it is more likely than not that the taxes will be recovered in the foreseeable future. The recovery of such refundable taxes is credited to retained earnings.
  - When it is not more likely than not that the taxes will be recovered in the foreseeable future, the taxes are charged to income.
  - Refundable taxes are accrued relating to all related elements of income recognized in the period, whether the taxes relating to these amounts are payable currently or in the future.
- **Alternative minimum tax**
  - Any income taxes currently payable that may reduce income taxes of a future period must be recorded as a future income tax asset if it is more likely than not that the income taxes will be sufficient to recover the amounts currently payable.
  - However, any amounts that are not more likely than not to be recovered must be included in current income tax expense.
- **Taxes related to distributions or future distributions**
  - Are treated the same for accounting as the distributions themselves.

## PRESENTATION

- **Income tax expense**
  - Included in determining net income / loss before discontinued operations is presented on the face of the Income Statement.
- **Income tax liabilities and income tax assets**
  - Must be presented separate from other liabilities and assets.
  - Current income tax liabilities and assets must be presented separate from future income tax liabilities and assets.
  - When an entity segregates assets and liabilities between current and non-current, it must classify future income tax assets and future income tax liabilities as non-current.
  - Current income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.
  - Similarly, future income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.
  - When enterprises are part of a group, but are taxed separately by the same taxation authority, a future income tax asset recognized by one enterprise cannot be offset against a future income tax liability of another enterprise in the group, unless:
    - Tax planning strategies can be implemented that meet the requirements of paragraph 3465.83 when the future income tax liability becomes payable.



## DISCLOSURE

- **When an enterprise applies the future income taxes method of accounting for income taxes, the following is disclosed separately:**
  - Current income tax expense included in the determination of income/loss before discontinued operations.
  - Future income tax expense included in the determination of income/loss before discontinued operations.
  - The portion of the cost of current and future income taxes related to capital transactions or other items that are charged to equity.
  - The total amount of unused tax losses and income tax reductions, and the amount of deductible temporary differences, for which no future income tax asset has been recognized.
  - The amount of future income tax assets and future income tax liabilities in respect of each type of temporary difference for each period presented.
- **The net charge of refundable dividend taxes must be disclosed separately.**
- **An enterprise that is not subject to income tax because its income is taxed directly to its owners shall disclose that fact.**



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